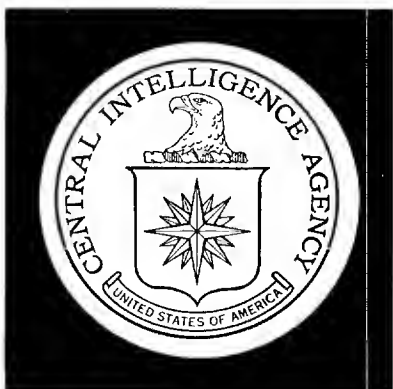


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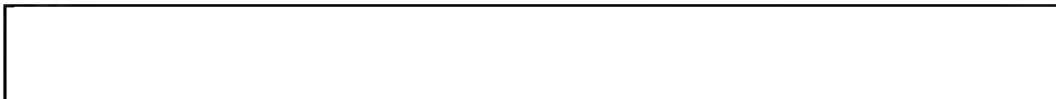
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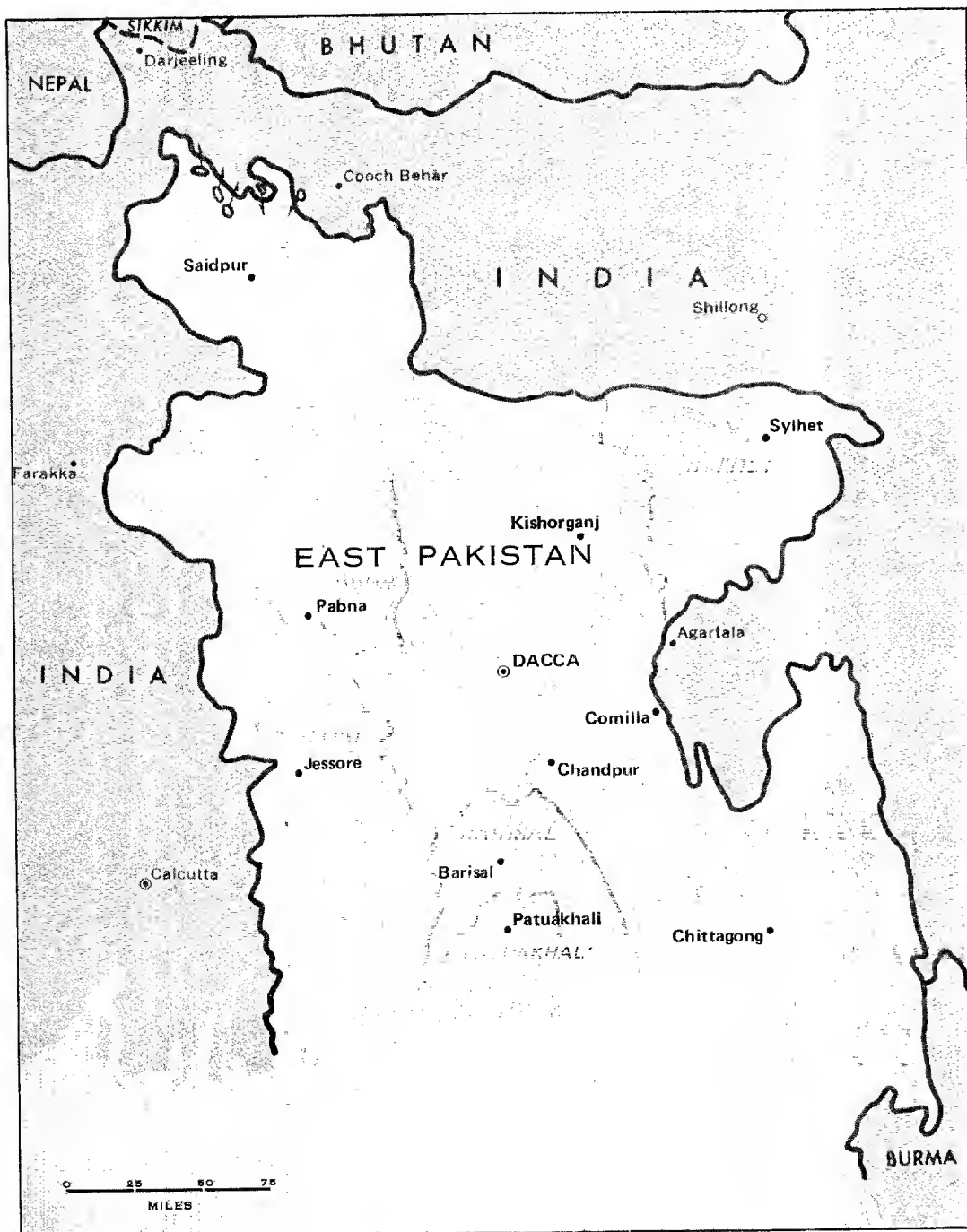
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PAKISTAN: Widespread guerrilla activity in East Pakistan is beginning to erode the morale and confidence of some West Pakistani personnel serving in the province.

25X1 [redacted] the Mukti Bahini openly controls the rural areas of Barisal and Patuakhali districts. [redacted]

25X1 [redacted] the Mukti Bahini is attempting to eliminate radical leftist guerrilla bands in these districts and possibly in Pabna and Jessore districts as well, and [redacted] there have been several clashes.

25X1 The guerrillas have driven police and militiamen from the Kishorganj area, and although the army still moves through the area, the Mukti Bahini is in effective control [redacted]

25X1 There are still frequent bombings in Dacca and Chittagong. A member of the Provincial Assembly was assassinated near Dacca on 7 November, and earlier two assembly candidates were badly wounded in Chittagong. In Dacca so far this month there have been three bank robberies attributed to the Mukti Bahini.

25X1 In talking with Pakistani Army officers, [redacted] [redacted] received the impression that those below the top command level are increasingly skeptical that retaining East Pakistan is worth the effort and the risk. [redacted]

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ISRAEL: Defense Minister Dayan's budget request for the fiscal year beginning 1 April 1972 has been referred for intensive scrutiny to a special ministerial committee headed by Prime Minister Meir.

By taking this action, both Dayan and his principal political antagonist, Finance Minister Sapir, may hope to escape any personal onus that could stem either from a cut that would weaken Israel's defense posture or from a large defense authorization that would intensify the need for economies elsewhere. The committee approach also serves to raise the budget question above the long-time personal rivalry between Dayan and Sapir.

Dayan has requested \$1.4 billion for his ministry. This amount, however, is reportedly \$120 million less than Dayan previously had intended to seek, and may merely represent an increase over the current year's authorization sufficient to offset the price rises resulting from domestic inflation and the devaluation of last August. Sapir has conceded that defense-related imports should not be reduced below \$830 million, their approximate level for the last two years. Hence, even moderate cuts in the total defense request would appear to require sharp reductions in in-country defense expenditures.

The government is under intense pressure to increase spending, particularly for social welfare measures, and to hold the line on taxes. Meanwhile, the economy is overheated with prices rising at an annual rate of about ten percent. Sapir has won cabinet approval for a ceiling on spending just under \$4 billion, a level likely to leave domestic outlays above tax revenues. With total budget requests reportedly approaching \$5 billion, it is clear that sizable cuts must be made and that the authorization of \$1.4 billion for defense would necessitate very sharp cutbacks elsewhere in the government.

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IAEA-EURATOM: Representatives of the International Atomic Energy Agency (IAEA) and EURATOM meet today in Vienna to begin negotiations on the nuclear safeguards agreement required by the Nonproliferation Treaty (NPT).

The NPT charges the IAEA with enforcing the ban on diversion of fissionable material from peaceful uses in the adhering nonnuclear-weapon states. These states may negotiate with the IAEA either singly or in a group; however, EURATOM is the only regional entity with a safeguards system. Although the NPT entered into force in March 1970, both sides have had difficulty starting negotiations. IAEA members finally agreed on safeguards guidelines last spring. In September the six states which at present comprise EURATOM approved a mandate to begin negotiations, having agreed that there would be no IAEA inspection of the nuclear activities of France, the only nuclear-weapon state in EURATOM and its only nonsignatory of the NPT.

The first round of talks is expected to last for several days, with a second round likely to be held in Brussels before January. Both sides are approaching the negotiations in an optimistic mood and do not foresee major obstacles that would prevent eventual agreement. There may be problems, however, over the IAEA's right to verify international transfers of fissionable material within EURATOM, especially between any of the Five and France. The EURATOM negotiators may also want less frequent IAEA inspections than the IAEA safeguards committee considers acceptable.

Conclusion of an IAEA-EURATOM accord is essential if an erosion of support for the NPT is to be avoided. The nonnuclear-weapon states in EURATOM will submit the treaty to their parliaments after the agreement with the IAEA is reached. Japan, a key nonnuclear-weapon state that has signed but not ratified the NPT, has said that it will consider ratification only after the terms of an IAEA-EURATOM accord are known.

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GUATEMALA: The government's ongoing campaign against the Communist insurgency is being widened to deal with the severe crime problem.

In recent months the law and order image of President Arana has been jeopardized more by the high crime rate in Guatemala than by the terrorist activities of the extreme left. The administration, under increasing pressure to lift the year-old state of siege, finally is giving priority to crime fighting and is now using army troops and vehicles armed with machine guns to supplement normal police patrols.

This ostentatious effort, which commits government prestige and raises popular expectations for quick results, is unlikely to succeed. It might erode confidence in Arana by graphically demonstrating the government's ineptness. If this is accompanied by continued demands for the restoration of constitutional guarantees, government frustration might lead to the adoption of an increasingly extra-legal approach to criminals and retard the halting steps away from such a policy with regard to left-ists.

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EAST GERMANY - WEST GERMANY: Trade relations are not likely to improve despite Bonn's lifting of the ban on steel imports from East Germany.

West Germany last August suspended steel imports from East Germany, except those under existing contracts, in response to flagrant attempts by Pankow to transship Bulgarian and Romanian steel illegally into West Germany. Although Pankow's action was motivated ostensibly by a desire to avoid default on its contracts with West German customers despite steel shortages, it violated the tariff and tax-free provisions of the interzonal trade (IZT) agreement and the special inter-German trade provisions of the European Community (EC) treaties. Bonn acted swiftly to ensure compliance with the IZT agreement, in part because of earlier complaints from Bonn's EC partners about violations.

The FRG has cut by one half the quotas for 1972 steel imports from the GDR, apparently in response to exaggerated complaints by West German steel producers that these imports are aggravating their financial troubles. This action, however, fits in with the "tit-for-tat" nature of bilateral trade relations and is not likely to improve the atmosphere.



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ALGERIA: Boumediene's recent call for "more austerity" has heightened discontent.

Ever since Boumediene seized power in mid-1965, the economic austerity he imposed has become more onerous. Wages have remained static, unemployment high, prices controlled, and consumer goods scarce. A handful of enterprising officials, however, managed to prosper, and corruption has flourished in some ministries in spite of continuing efforts to root it out.

Controls were tightened when the ambitious four-year industrialization plan was launched in 1970. They were expanded even further last spring by the boycott of French oil companies, which retaliated against Algerian nationalization of 51 percent of their assets by cutting off imports of Algerian crude oil.

A marked rise in discontent, particularly among the bureaucracy and the ministers themselves, was touched off last month when Boumediene bluntly warned that austerity for the urban consumer would continue. Addressing an audience on 19 October in a depressed area, Boumediene stated that the urban-rural imbalance and the overriding priority of industrialization "demand new sacrifices, not on the part of the disinherited masses but on the part of those who profit from their superior standing."

Boumediene's remarks have stirred considerable controversy even though he has since amplified and moderated them. Many members of the government argue that the people will not accept his brand of "austerity" and that his economic policies are not only too rigidly applied but are paving the way for increasingly dangerous popular discontent.

25X1 [redacted] Boumediene
faces a serious problem in controlling some members
of his government. [redacted]

25X1 [redacted] several ministers [redacted]

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[REDACTED] consider his increasing rigidity dangerous for Algeria's political future. The mutual hostility of these critics, however, has thus far prevented their collaboration in any attempt to remove him.

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COMMUNIST CHINA - JAPAN: China's continuing concern with the Taiwan question was expressed by Chou En-lai in a recent interview with Japanese newsmen. Chou took a forceful line against alleged official Japanese involvement with the dissident Taiwan Independence Movement, emphasizing that this involvement represented the "biggest obstacle" to Sino-Japanese friendship. He added that improved state relations would be impossible so long as Tokyo continued to sanction the movement's activities in Japan. In the aftermath of Taipei's expulsion from the UN last month, Peking has given urgent attention to forestalling the possibility that Japan or the US might attempt to build up the movement in order to foster a sovereign state on Taiwan free from mainland control.

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JAPAN: A group of prominent Japanese business leaders will leave for Peking on 12 November to explore ways of establishing channels of communication in the absence of formal diplomatic relations. The mission is of particular significance because it represents the major business and financial interests in Japan; all of its members have intimate connections with the ruling Liberal Democratic Party. While the delegation will have no formal agenda and is traveling in an unofficial capacity, the results of its soundings undoubtedly will be conveyed directly to Prime Minister Sato and should play a major role in the government's current re-assessment of its China policy. The members of the mission hope to maintain their economic ties with Taiwan while expanding trade with the mainland.

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CUBA-CHILE-PERU: Havana's decision to publicize the details of Fidel Castro's arrival in Chile probably stems from a desire to reap the greatest propaganda advantage from the outset of the visit, although the degree of real enthusiasm among Chileans for it remains uncertain. According to official announcements from Havana and Santiago, Castro will arrive tomorrow afternoon.

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An advance party of security officials, headed by Cuba's chief of protocol, arrived in Chile on 5 November. Castro will probably meet Peru's President when the Cuban airliner stops briefly in Lima for servicing.

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